

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

DOCKET NO. 2018-318-E

SURREBUTTAL TESTIMONY

OF

KEVIN W. O'DONNELL, CFA

ON BEHALF OF THE

SOUTH CAROLINA ENERGY USERS COMMITTEE

March 25, 2019

- 1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**
- 3 A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,
4 Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina
5 27511.
- 6 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
7 **PROCEEDING?**
- 8 A. I am testifying on behalf of the South Carolina Energy Users Committee
9 (SCEUC). A number of SCEUC members take retail electric service from the
10 applicant, Duke Energy Progress (DEP, Duke, or Company), and the outcome of
11 this proceeding will have a direct bearing on these SCEUC members.
- 12 **Q. DID YOU PREVIOUSLY SUBMIT PRE-FILED DIRECT TESTIMONY IN**
13 **THIS CASE?**
- 14 A. Yes. On March 4, 2019, I submitted pre-filed direct testimony in this proceeding.
15
- 16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
17 **THIS PROCEEDING?**
- 18 A. The purpose in this surrebuttal testimony is to address the rebuttal testimonies
19 of Wright, Kerin, and Wheeler.
- 20 **Q. WITH WHAT AREAS OF MR. KERIN'S REBUTTAL TESTIMONY DO**
21 **YOU DISAGREE?**
- 22 A. I disagree with Mr. Kerin's characterization of the coal ash cost comparison
23 analysis I performed in this case as well as his mistaken belief that costs related
24 to CAMA are not more stringent than cost related to the federally-mandated CCR
25 rules.
26
- 27 **Q. PLEASE EXPLAIN YOUR DISAGREEMENT WITH MR. KERIN'S**
28 **COMMENTS IN REGARD TO YOUR COAL ASH COST COMPARISON.**

1 A. Mr. Kerin believes the Commission should not compare the coal ash costs of Duke
2 relative to the same costs of other utilities. Apparently, Mr. Kerin wants this
3 Commission to blindly accept Duke's position that its costs are reasonable in
4 relation to other utilities. Mr. Kerin's position is antithetical to the concept of
5 utility regulation.

6
7 I have appeared as a witness on the matter of rate of return in states around the
8 country for over 33 years. Most, if not all, rate of return witnesses provide a
9 discussion of the *Federal Power Commission v. Hope Natural Gas Company*, 320
10 U.S. 591 (1944) case. Indeed, in this case, Company Witness Hevert cited the
11 above-stated Hope case in his pre-filed testimony. Mr. Hevert, like myself,
12 recognizes the need for comparisons in determining the accuracy of cost
13 estimates. In his pre-filed testimony, Mr. Hevert states:

14
15 As discussed above, and in keeping with the Hope and Bluefield
16 standards, that return should be commensurate with the returns
17 expected elsewhere in the market for investments of equivalent
18 risk.¹
19

20 In this case, Mr. Hevert used a comparable group of companies to help develop
21 his return on equity recommendation. Mr. Kerin, on the other hand, does not
22 believe any such comparisons should be made in regard to coal ash costs. I
23 disagree. DEP's costs are grossly out-of-line in relation to coal ash costs of other
24 utilities across the country. This information is relevant to the Commission's
25 deliberations in this docket and the excess of Duke's coal ash costs as I
26 demonstrated in my pre-filed direct testimony
27

28 **Q. HOW DO YOU RESPOND TO THE STATEMENTS FROM MR. KERIN**
29 **AND DR. WRIGHT THAT THE COSTS FROM NORTH CAROLINA'S**

¹ Hevert prefled direct testimony, p. 11

1 **CAMA LEGISLATION ARE NOT HIGHER THEN THE FEDERALLY**
 2 **MANDATED CCR RULE?**

3 A. The statements of Mr. Kerin and Dr. Wright conflict with statements from other
 4 Duke officials that have admitted CAMA costs are higher than CCR costs. On
 5 May 24, 2016, Utility Dive published a story entitled “Two years after EPA's coal
 6 ash rule, progress depends on states”. Below is a portion of that article.

8 Duke Energy, the state's major investor-owned utility, has a total
 9 of 150 million tons of ash at its 14 coal plants in North Carolina.
 10 Mark McIntire, director of environmental policy at Duke, told
 11 Utility Dive the company faces more stringent standards from the
 12 CAMA rather than the federal regulation.

14 “The NC law came before the CCR [rule],” he said. “We find that
 15 NC CAMA that is specific to NC is generally driving decision
 16 making on a management perspective on coal ash ... From a
 17 comparison perspective the CAMA is generally a good bit more
 18 stringent.”² (underline added)

20 Obviously, Duke’s director of environmental policy, Mark McEntire, disagrees
 21 with Mr. Kerin and Dr. Wright in this case. The Commission needs and deserves
 22 a straight answer from Duke.

24 **Q. HOW DO YOU RESPOND TO THE POSITION OF MR. WHEELER**
 25 **REGARDING REAL-TIME PRICING RATES?**

26 A. The fact that Duke’s hourly pricing rates are higher than market rates is a
 27 reflection on Duke’s regulated rates being above market costs. While I agree with
 28 Mr. Wheeler that Duke’s RTP rates are marginal rates based on the Duke system
 29 production costs, I disagree with Mr. Wheeler that Duke should not offer its large
 30 customers the lower of market costs or Duke’s hourly costs. Given Duke
 31 management’s decision on future rate hikes to fund its grid plan and drive

² <https://www.utilitydive.com/news/two-years-after-epas-coal-ash-rule-progress-depends-on-states/419672/>,
 May 24, 2016

1 earnings, Duke's rates may soon become a liability for manufacturers. Since
2 Duke's prices are based on marginal costs, meaning that Duke's hourly pricing
3 depends on the last kWh produced at a given time in the day, I see no reason why
4 my recommendation cannot, and should not, be implemented by Duke. Duke can
5 simply ramp down its higher cost plants on an hourly basis and buy its hourly
6 loads in the open marketplace, thereby passing on the savings to its customers.

7 While Duke's President Kodwo Gartey-Tagoe promotes economic development
8 in his pre-filed testimony,³ the Company's unwillingness to create job retention
9 opportunities for its largest customers is highly frustrating. The purpose in my
10 testimony is to recommend an RTP rate structure that will lower industrial costs
11 and, in so doing, increase manufacturing demand for Duke's product and keep
12 manufacturing jobs in the state. Instead of offering to further examine new rate
13 options, DEP's position is to simply say no. Such a position shows a level of
14 indifference by Duke that should trouble this Commission.

15
16 As set out in my direct testimony, the RTP rate I recommend has no adverse rate
17 impact on any other customer class and has no negative impact on Duke's
18 profitability.

19
20 My recommendation in this regard continues to be for this Commission to require
21 Duke to offer the lower of either the Duke RTP rate OR the market rate as taken
22 from the Dominion Hub and grossed up for line losses.

23
24 **Q. DOES THIS CONCLUDE YOUR PREPARED SURREBUTTAL**
25 **TESTIMONY?**

26 **A. Yes.**

³ Prefiled testimony of Kodwo Gartey-Tagoe, page 33